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TAGS: ENRG ETRD ECON AS
SUBJECT: GOA MULLS CHANGES TO LNG LEASES, IMPACT ON U.S.
COMPANIES

REF: A. 2008 PERTH 93
¶B. 2008 CANBERRA 1003

Classified By: Economic Counselor Edgard Kagan, Reasons 1.4(b)(d)

¶1. (C/NF) Summary: Energy and Resources Minister Martin Ferguson is concerned about possible complaints about Australian energy policy by major U.S. energy companies. Ferguson wants to reassure the U.S. that he seeks cooperative work on any conflicts before they become bilateral irritants. The most likely candidate for potential problems are "use it or lose it" limits on gas holdings off the Northwest Shelf of Australia and possible requirements that oil and gas developers set aside products for sale in domestic markets. End Summary.

ENERGY MINISTER'S DOOR OPEN

¶2. (C/NF) Ferguson's chief adviser, Tracy Winters, requested a meeting with Econ counselor on June 26. In that meeting, Winters first said that her purpose for seeking the meeting was to ensure that the U.S. Embassy understood that Ferguson's office was open to discussions at any time on energy policy, and that the Minister wanted to work with the U.S. government to avoid any friction between U.S. companies and the GOA before they became larger problems. When pressed on what issues might arise, Winters said that both Exxon-Mobil and Chevron were major investors in LNG development on the Northwestern Shelf, and that as both were "gas heavy but infrastructure light" there could be concerns on how quickly they could exploit their resources. The Rudd government has contemplated enforcing "use it or lose it" requirements to resource leases under Commonwealth control. Ferguson signaled intent to do so on a case-by-case basis in a June 12 ABC radio interview. The GOA has had that option, in the form of "retention leases" intended to allow currently "non-commercial" gas fields to be held under tenure for five years, since 1985. These leases have generally been allowed to roll over to the same owner at the end of their five-year terms. Ferguson said on June 12 that a "fair" amount of time to hang onto a lease without developing it "would vary from lease to lease," but decisions would be biased towards ensuring rapid development of gas resources that could supply the domestic market. Ferguson added that the GOA is focusing on development of Australia's energy resources, not only in LNG, but also in uranium, despite the effects of the economic

downturn.

¶3. (SBU) Moving ahead with the GOA's push to change the way retention leases are handled, the Department of Resources, Energy and Tourism (DRET) released a draft paper titled "Review of Policy Relating to the Grant and Renewal of Retention Leases - Options Paper" on June 12. That paper lays out a range of options for changing the way retention leases could be handled, including maintaining the status quo, abolishing retention leases, or modifying parameters and administration of such leases. The paper solicits responses from interested parties before August 14, and states that conclusions in the draft are for the purposes of stimulating discussion and do not reflect the final views of the GOA or other jurisdictions. The Commonwealth Ministerial Council on Qother jurisdictions. The Commonwealth Ministerial Council on Mineral and Petroleum Resources (MCMPR) would have the final say on changes to the way leases are administered, and would require changes to legislation, including the 2006 Offshore Petroleum and Greenhouse Gas Storage Act of 2006, to enforce them.

¶4. (SBU) DRET Acting General Manager for Offshore Resources Martin Squire told econoff that the GOA would review and synthesize submissions after the August 14 deadline for consideration by Ferguson, who would then present a position to the MCMPR. Once endorsed by the MCMPR, if legislative changes were required, they would likely take place next year. Squire said that it was certain that any changes pushed by Ferguson would still only be applied on a case-by-case basis and in consultation with industry. He noted that Australia is already the most expensive location in the world to develop LNG resources, and that it made little sense to try and spur development of gas resources by reducing incentives to explore and produce. The GOA takes a broad view of force majeur, and understands well the complicated and slow pace of development of any major gas project, Squire said. No government would take lightly a decision to revoke a retention lease from a company that had invested hundred of millions already. That said, some changes are likely, as the GOA feels the best time to increase investment in LNG is during the downside of a cycle, and would need some spur to encourage more rapid development where possible.

THIRD PARTY CLAIMS KEY ISSUE

¶5. (C/NF) Of key concern to major multinational energy companies like Exxon-Mobil or Chevron would be the possibility that third parties could challenge their tenure over gas fields they are not currently exploiting. Australia's Woodside, for example, is generally considered to be "infrastructure heavy and gas poor" (in Winters' words) due to shortfalls in expected gas exploration in their leased territory. If large multinationals were considered to be sitting on gas that Woodside could exploit, it could provide a tempting target for a "use it or lose it" decision by the Commonwealth that would appeal to Australians' concerns over foreign investment in resources, energy security, and domestic energy prices. Other companies like Apache and Hess Oil have large exploration holdings, and we have heard, through media and recent conversations with Hess, that they are carefully watching how closely government tries to hold them to exploration (vice production) time commitments. Hess told econoff on June 22 that they were meeting Ferguson to discuss extending existing three-year deadlines on exploration drilling because the drill rig they have contracted was damaged while working on another company's holdings and their schedule had been delayed. Hess has not since requested further assistance from U.S. mission. Ferguson did cause some grumbles from U.S. and Australian LNG companies in 2008 when he suggested that companies could be forced to set aside a fixed percentage of gas for the domestic gas market, which would have the effect of driving down price by boosting supply. Ferguson and the WA government pushed the requirement following the significant

disruption to WA gas supplies caused by an explosion at Apache's Varanus Island LNG operation, and billed it an energy security measure.

¶6. (C/NF) Comment: The U.S. mission, including the Embassy, Consul-General Perth, and Foreign Commercial Service, have not been formally approached by any U.S. companies expressing concerns over the impact of changes to the retention lease system. However, as this push is in its early phases, should Australia indicate it is tacking towards a more restrictive policy, we could see requests for assistance from U.S. companies. That Ferguson's staff is seeking to keep a channel open for resolving any problems quickly is reassuring, but probably signals that changes are likely and that the GOA expects some push back from major players. End Comment.

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